



**U.S. Department of Agriculture
Office of Inspector General
Southwest Region
Audit Report**

**Advances to Nonprofit Organizations
for Grants/Cooperative Agreements**



**Report No.
50801-11-Te
SEPTEMBER 2000**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: September 29, 2000

REPLY TO

ATTN OF: 50801-11-Te

SUBJECT: Advances to Nonprofit Organizations for Grants/Cooperative Agreements

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

ATTN: James R. Little
Associate Chief Financial Officer
Office of the Chief Financial Officer

This report presents the results of our review of agency advances to nonprofit organizations for grants/cooperative agreements. The Office of the Chief Financial Officer's (OCFO) written response to the draft report is included as exhibit I, and OCFO's comments and the Office of Inspector General's (OIG) position concerning the written response are set forth in the Recommendations section of the report.

We do not agree with OCFO's management decisions for Recommendations Nos. 1, 2, 3, 4, and 5. Additional information is needed to reach agreement on the management decisions for these recommendations. The information needed to reach agreement is set forth in the Recommendations section of the report.

Please furnish the information needed to reach agreement on the management decisions for Recommendations Nos. 1, 2, 3, 4, and 5 by November 30, 2000. Please note that Departmental Regulation 1720-1 requires a management decision for all recommendations within a maximum of 6 months from the date of report issuance.

We appreciate the cooperation and courtesies provided during the audit. If you have any questions or need additional information, please call me at 720-6945 or have a member of your staff contact Richard J. Davis, Director, Administration and Finance Division, at 720-1918.

/s/ J. R. Ebbitt
JAMES R. EBBITT
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

ADVANCES TO NONPROFIT ORGANIZATIONS FOR GRANTS/COOPERATIVE AGREEMENTS

REPORT NO. 50801-11-Te

RESULTS IN BRIEF

The objectives of this review were to evaluate Office of the Chief Financial Officer (OCFO) and agency controls over advances, determine the interest cost to the Government for advances of

Federal funds, and determine whether interest earned on advanced funds was returned to the U.S. Department of the Treasury. The review found that management of cash advances by United States Department of Agriculture (USDA) agencies to nonprofit organizations (NPO) needs improvement.

Three of four agencies reviewed, Foreign Agricultural Service (FAS), Rural Housing Service (RHS), and Rural Utilities Service (RUS), representing \$283.5 million (87 percent) of grants for the 21-month period reviewed, had not incorporated Title 7, Code of Federal Regulations (CFR) 3019, Uniform Administrative Requirements for Grants and Agreements with Higher Education, Hospitals, and Other Nonprofit Organizations, into their grant agreements. One of the four agencies reviewed, Animal and Plant Health Inspection Service (APHIS), representing \$4.8 million (1 percent) of the grants, had incorporated the regulation, but had not fully implemented the provisions. This occurred because OCFO did not assure compliance with Departmental regulations over cash management by USDA agencies.

USDA grants to NPO's resulted in profits to grant recipients, increased interest expense for taxpayers resulting from premature borrowing needs, and the potential of having agency administrative appropriations reduced by the increased borrowing needs of the U.S. Department of the Treasury. For example, for the 26 grants reviewed with \$81.6 million in advances, we found \$73,768 in interest that had been earned on cash advances and not returned to the Department of the Treasury, \$126,288 in interest lost to the Government for failing to put advanced funds in interest-bearing accounts, and \$407,442 in interest expense to the Government to advance funds.

FAS officials said they had concurrence from the Office of the General Counsel (OGC) that Title 7, CFR 3019, did not apply to FAS grants. Therefore, FAS had not implemented cash management controls required by Title 7, CFR 3019. In absence of a formal written legal opinion from OGC, we question FAS' determination that Title 7, CFR 3019 does not apply to FAS. Nevertheless, the provisions of Departmental Regulation (DR) 2120-0001, Cash Management, and Title 31, U.S. Code (USC) 3335, Timely Disbursement of Federal Funds,

also impose cash management controls over advances to recipients that are applicable to FAS.

KEY RECOMMENDATIONS

We recommend that OCFO develop and implement a strategy to ensure that USDA agencies comply with the cash management controls of Title 7, CFR 3019, Uniform Administrative Requirements for Grants and Agreements with Higher Education, Hospital, and Other Nonprofit Organizations, issued by the Office of the Secretary on August 24, 1995. With this strategy in place, USDA agencies would have no need to expend resources developing their own administrative grant regulations, and agencies and grantees would be required to follow uniform cash management controls.

We recommend that the OCFO update and strengthen DR 2120-1, Cash Management, to provide that controls be established to ensure compliance with the Department's cash management policies.

We also recommend that the \$73,768 in interest earned on advanced funds be returned to the Department of the Treasury. We also recommend that OCFO coordinate with the Department of the Treasury to recover \$323,340 in increased Treasury borrowing costs (\$407,442 borrowing costs less \$73,768 in interest to be returned less \$10,334 in interest returned) from the applicable agencies' administrative appropriations.

In addition, we recommend that OCFO require each USDA agency review its existing advances and (1) recover all interest earned on advanced Federal funds, (2) ensure all advances are placed in interest-bearing accounts, and (3) ensure disbursements are made by grantees immediately upon receipt of an advance.

AGENCY RESPONSE

The OCFO written response to the draft report (see exhibit I) agreed that USDA agencies are to comply with the cash management requirements set forth in the regulations and statutes identified in the report. However, OCFO said there is disagreement among the agencies as to how the requirements should be applied, and that it had not completed its review of the various agency positions. In addition, OCFO informally discussed with Department of the Treasury officials the issue of recovering the cited increased borrowing costs from agency administrative appropriations and determined that Treasury Department officials were generally not in favor of recovering these costs; however, a formal position had not been obtained from Treasury. The remaining recommendations were not addressed in OCFO's written response to the draft report.

OIG POSITION

OCFO needs to develop and implement a strategy to ensure that USDA agencies comply with the cash management controls in Title 7 CFR 3019, update and strengthen DR 2120-1, require interest earned on advanced funds to be returned to the Department of the Treasury, and obtain a formal response from the Department of the Treasury that the increased borrowing costs will not be recovered from the cited agencies. The specific information needed to reach agreement on the management decisions is set forth in the Recommendations section of the report.

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INTRODUCTION

BACKGROUND

Audit No. 08801-2-Te, Assistance Agreements With Nonprofit Organizations, dated September 24, 1998, found in a review of eight grants with Federal funds totaling \$7.8 million that the Forest

Service had not effectively managed advances to the NPO resulting in \$200,795 in increased Treasury borrowing costs and \$21,166 in interest earnings that had not been returned to the Treasury. With this background, it was determined that the subject of grant advances by USDA agencies should be reviewed.

The OCFO was established by the Secretary of Agriculture to comply with the Chief Financial Officers (CFO) Act of 1990 (Title 31, USC 902, dated November 15, 1990). This legislation mandates comprehensive reform of Federal financial operations, requires long-range planning, audited financial statements, and accountability and measurement reporting. OCFO's mission is to shape an environment in which USDA officials have and use high quality financial and performance information to make and implement effective policy, management, and stewardship and program decisions. One of the objectives of the OCFO is to lead and participate in the development of Government-wide financial management policies and to direct their timely implementation within USDA. The CFO Act requires the CFO to direct, manage, and provide policy guidance and oversight of agency financial management operations, including systems for cash management.

The Director, Fiscal Policy Division, reports to the immediate office of the CFO, and is responsible for providing leadership and guidance in the development of policies and in the issuance of regulations for domestic Federal assistance. In furtherance of this objective on August 24, 1995, the Office of the Secretary, USDA, published Title 7, Code of Federal Regulations (CFR), part 3019, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations; Interim Rule in the Federal Register. These regulations established uniform administrative requirements for Federal grants and agreements awarded to institutions of higher education, hospitals, and other nonprofit organizations. Further, the regulation stated that Federal awarding agencies shall not impose additional or inconsistent requirements, unless specifically required by Federal statute or executive order.¹ Subpart C

¹ Title 7, CFR section 3019.4, Deviations, dated August 24, 1995, provides that the Office of Management and Budget (OMB) may grant exceptions for classes of grants or recipients subject to the requirements of this Part when exceptions are not prohibited by statute. However, in the interest of maximum uniformity, exceptions from the requirements of this part shall be permitted only in unusual circumstances. Federal awarding agencies may apply more restrictive requirements to a class of recipients when approved by OMB. Federal awarding agencies may apply less restrictive requirements when awarding small awards, except for those requirements that are statutory. Federal awarding agencies may also make exceptions on a case-by-case basis.

of Title 7, CFR Part 3019 established financial and program management requirements for recipients of grants.

OBJECTIVES

The objectives of this review were to (1) evaluate OCFO and agency controls over advances, (2) determine the interest cost to the Government for advances of Federal funds, and (3) determine whether interest earned on advanced funds was returned to the U.S. Department of the Treasury.

SCOPE

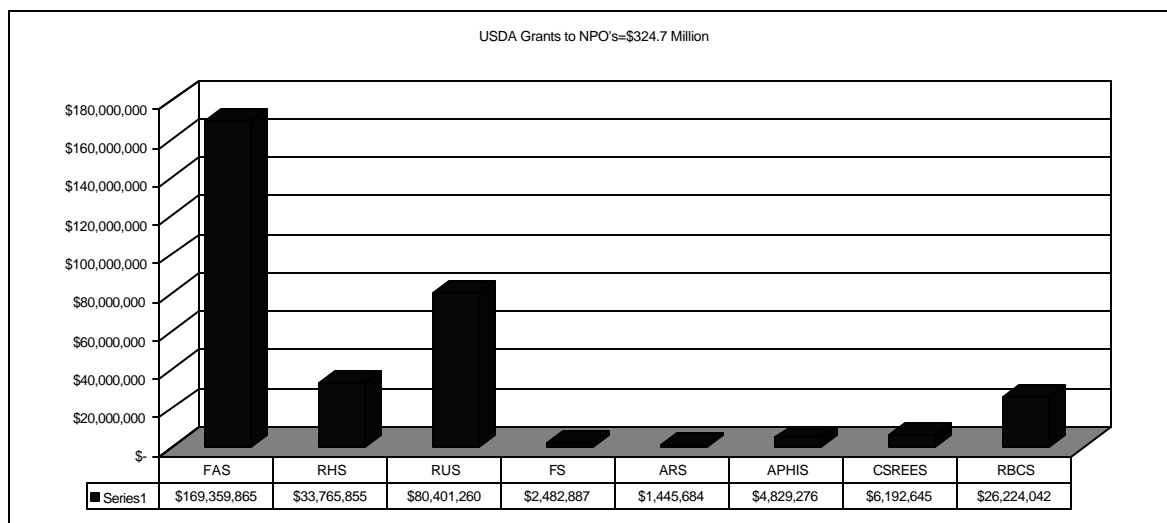
The Federal Assistance Awards Data System (FAADS) is a quarterly compilation of financial assistance award transactions obtained from, and submitted by, Federal Government agencies under the requirements of Title 31, USC 6102. The data available from FAADS covers Federal expenditures or obligations for formula, project, and block grants; cooperative agreements; direct and guaranteed loans; direct payments to individuals; and insurance.

FAADS data are identified by the code assigned to each assistance program listed in the Catalog of Federal Domestic Assistance (CFDA), or by a similarly constructed pseudocode to identify those programs not listed in the CFDA. Data are organized by the Federal Information Processing Standards (FIPS) geographic codes for States, counties or places, based on the best available determination of the location of the recipient. The data also identifies the Federal agency or department that made the award. The latest quarterly data available from FAADS at the time of the audit fieldwork was the third quarter of FY 1998.

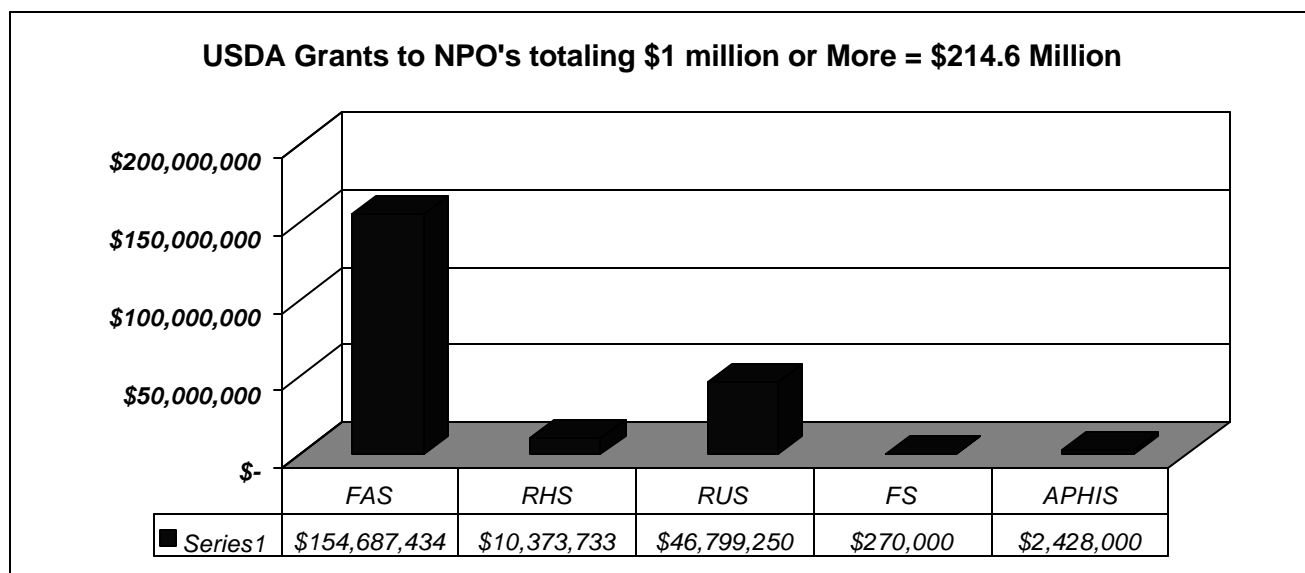
All departments and major agencies of the executive branch of the Federal Government with grant making authority report data to FAADS. Most USDA agencies participate in FAADS. We used FAADS to identify USDA grants to NPO's. We also tested the data reliability of FAADS data by verifying the number and amount of grants for those entities selected for review.

Title 7, CFR section 3019.14, ~~Special Award Conditions~~, dated August 24, 1995, also provides that if an applicant or recipient (a) has a history of poor performance, (b) is not financially stable, (c) has a management system that does not meet the standards prescribed in this part, (d) has not conformed to the terms and conditions of a previous award, or (e) is not otherwise responsible, Federal awarding agencies may impose additional requirements as needed, provided that such applicant or recipient is notified in writing as to the nature of the additional requirements, the reason why the additional requirements are being imposed, the nature of the corrective action needed, the time allowed for completing the corrective actions, and the method for requesting reconsideration of the additional requirements imposed. Any special conditions shall be promptly removed once the conditions that prompted them have been corrected.

Per FAADS, USDA agencies issued 1,225 grants/cooperative agreements² totaling \$324.7 million during fiscal years (FY) 1997 and 1998 (through June 30, 1998), as follows:

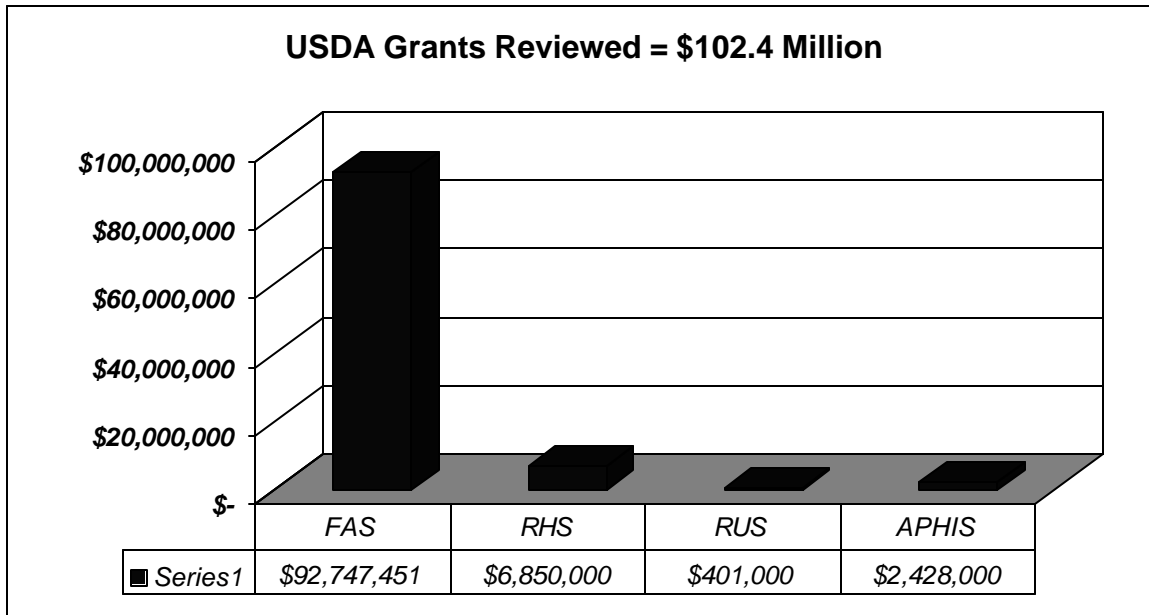


Of these grants, 61 grantees received 150 grants cumulatively totaling over \$1 million each (ranging between \$1 million and \$20 million). These 150 grants totaled \$214.6 million (66 percent of the total grants issued during the period) and were issued by the five agencies listed in the table below. Some grantees received grants from more than one agency.



² Grants and cooperative agreements are commonly referred to as "grants" and this term will be used throughout the remainder of this report. See exhibit D for the legal definition of grant and cooperative agreement.

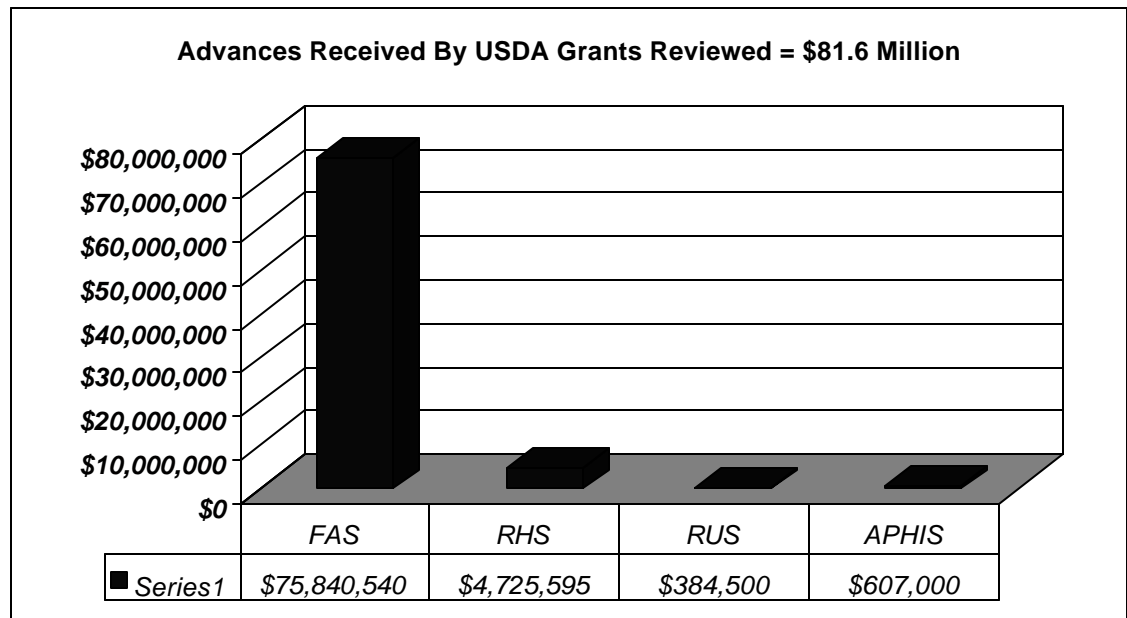
The review was conducted during the period July 1999 through January 2000, and included 14 grantees with 26 grants issued by FAS, RUS, APHIS, and RHS, totaling \$102,426,451 (48 percent of grants cumulatively totaling over \$1 million) as indicated in the table below.



Grantees who received \$1 million or more in Federal grants from USDA agencies during FY's 1997 and 1998 (through June 30, 1998)³ constituted the universe from which grantees were selected for potential review. The grants selected for review generally were the largest; however, in order to conserve travel resources, the grantees were geographically grouped, where possible, to provide the best coverage with the least expenditure of resources. For example, groupings occurred in the Washington, DC; St. Louis, MO; and Sacramento, CA areas. Also considered was the need to cover several USDA agencies. Grantees that did not receive advances were eliminated from consideration. See exhibit B for the sites visited.

Of the \$102.4 million in grants issued by the FAS, RHS, RUS, and APHIS, a total of \$81.6 million had been advanced. The following table illustrates the amount of advances by agency.

³ June 30, 1998, was the date of the latest data available at the beginning of the review.



The Office of the Secretary prescribed the process to be followed by USDA agencies in the management of cash advances to NPO's in Title 7, CFR 3019, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations, issued in August 1995. We evaluated the OCFO and agency cash management controls in place to ensure the prescribed process was followed.

This review was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, the review included such tests of program and accounting records as considered necessary to meet the objectives.

METHODOLOGY

To assess the cash management controls at the OCFO, we interviewed responsible OCFO officials to determine the procedures, e.g., directives and policy memorandums, in place to ensure USDA agencies had implemented the controls. To assess whether USDA agencies had implemented the prescribed cash management controls, we compared agency grant regulations and grant agreements with the cash management controls issued by the Office of the Secretary.

At the grantees, we determined the cost to the Treasury of advancing funds and the amount of interest earned on advanced funds. We made these determinations by ascertaining from the grantees' financial records the dates of deposit and subsequent disbursements of advanced funds.

Regulations covering advances by Federal agencies require payment methods that minimize the time elapsing between the transfer of funds from the Department of the Treasury and disbursement for program purposes. These regulations also require that cash advances be limited to minimum amounts needed and be timed to be in accordance with actual, immediate cash requirements. Moreover, the timing and amount of cash advances are to be as close as is administratively feasible to the actual disbursement by the grantee.

The law requires electronic funds transfer (EFT) by Federal agencies. Thus, it is administratively feasible to advance funds to a recipient on the day the funds are needed for disbursement. Therefore, our methodology for calculating the interest cost to the U.S. Treasury (i.e., the interest rate the Treasury pays to borrow funds) was to apply the applicable interest rate to the daily outstanding balance of unspent, advanced funds. Any difference in this method of calculation of interest costs and one in which an indefinite number of days elapses before disbursement would be construed as management savings that could be achieved between the Federal agency and the grant recipient.

The interest rate the Department of the Treasury used to borrow funds in effect at the time of the Federal agency's advance was used in our calculation of interest costs until the advance was fully expended by the recipient. If the recipient received another advance prior to the full expenditure of the previous advance, it was accounted for separately and only after expenditures had exhausted the previous advance.

Interest cost to the Treasury (i.e., the interest rate the Treasury pays to borrow funds) was determined using the interest rates published by the U.S. Department of the Treasury⁴. This interest rate was applied to the daily outstanding balance of advanced, unspent, Federal funds.

For Federal funds not placed in an interest-bearing account, the interest rate used was the rates received for Treasury funds deposited in interest-bearing accounts⁵.

For grantees that deposited the Federal funds in a distinct interest-bearing account (i.e., not mixed with other funds), we used the amount of interest credited to the account as the amount to be returned to the Treasury.

⁴ Rates are published semiannually in the Federal Register. For example, the rates for the period of July 1, 1998, through December 31, 1998, were published in Volume 63, no. 125, on June 30, 1998, on page 35645.

⁵ Rates are published annually in the Federal Register. For example, the rate for calendar year 1999 was published in Volume 63, No. 210, on October 30, 1998, on page 58458.

For grantees that deposited the Federal funds into an account with other funds, and the interest rate was determinable, we calculated the amount of interest earned on the outstanding balance of Federal funds. Some grantees deposited funds in “sweep” accounts where the outstanding balance of funds was swept out periodically (usually daily) and the earnings were credited to the account. The interest rate on these accounts could not be determined. Therefore, the interest earned on Federal funds in these accounts was determined to be the maximum amount earned on the account with the grantee and USDA agency responsible for determining how much would be returned to the Treasury.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	CONTROLS OVER CASH ADVANCES BY USDA AGENCIES TO NONPROFIT ORGANIZATIONS NEED STRENGTHENING
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FINDING NO. 1

Management of cash advances by USDA agencies to NPO's needs improvement. Three of four agencies reviewed (FAS, RHS, RUS) did not incorporate Departmental grant regulations

over cash management into their grant agreements. One agency (APHIS) incorporated the Departmental regulations, but had not fully implemented the provisions. This occurred because OCFO did not assure compliance with regulations over cash management by USDA agencies.

USDA grants to NPO's resulted in profits to grant recipients, increased interest expense for taxpayers resulting from premature borrowing needs, and the potential of having agency administrative appropriations reduced by the increased borrowing needs of the U.S. Department of the Treasury. For example, for the 26 grants reviewed, we identified \$73,768 in interest that had been earned on cash advances that had not been returned to the Treasury, \$126,288 in interest lost to the Government for failing to put advanced funds in interest-bearing accounts, and \$407,442 in interest expense to the Government to advance funds.

The Office of the Secretary prescribed the process to be followed by USDA agencies in the management of cash advances to NPO's in Title 7, CFR 3019, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations.⁶ These regulations require:

- Payment methods to minimize the time elapsing between the transfer of funds to the grantee from the U.S. Treasury and disbursement of the funds for program purposes by the grantee.
- Cash advances to a grantee to be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the grantee in carrying out the grant's purpose.
- The timing and amount of cash advances to be as close as is administratively feasible to the actual disbursements by the grantee.

⁶ Title 7, CFR part 3019, dated August 24, 1995

- Funds to be kept in interest-bearing accounts with interest earned returned to the U.S. Treasury through the U.S. Department of Health and Human Services, Payment Management System.
- Cash advances to be subject to U.S. Department of the Treasury regulations governing advance payments.

In addition, Departmental Regulation (DR) 2120-0001, Cash Management, requires USDA agencies to comply with the applicable provisions of the Department of the Treasury Financial Manual (TFM). TFM, volume 1, part 6, chapter 2000, section 2025 requires that advances to a recipient organization be limited to the minimum amounts necessary for immediate disbursement needs, and that advances be timed to be in accord with the actual immediate cash requirements of the recipient in carrying out the purpose of an approved program or project. The timing and amount of cash advances are to be as close as is administratively feasible to the actual disbursements by the recipient organization.

Also, Title 31, U.S. Code (USC) 3335, Timely Disbursement of Federal Funds, requires USDA to follow the regulations prescribed by the Secretary of the Treasury in the TFM to provide for the timely disbursement of Federal funds. The law provides the statutory authority for the Secretary of the Treasury to recover the cost to the general fund of the Treasury if Federal agencies do not comply with the timely disbursement regulations found in the TFM.

In addition to the process prescribed by the Office of the Secretary, the Principles of Federal Appropriations Law,⁷ published by the Office of the General Counsel (OGC) of the General Accounting Office (GAO), provides a basic reference work covering those areas of appropriations law in which the Comptroller General has rendered decisions. Contained within this reference work are sections on cash management concerns and requirements, and interest on grant advances.

⁷ U. S. GAO Office of the General Counsel, Principles of Federal Appropriations Law, Second Edition, volume I, dated July 1991, and volume II, dated December 1992.

Cash Management Concerns and Requirements

Advances to grantees are intended to accomplish the grant's purposes and not to profit the grantee other than in the manner and to the extent specified in the grant. Premature drawdown of grant funds not only profits the grantee, but also does so at the expense of taxpayers.⁸ Congress recognized these concerns in Title 31, USC 3335. This legislation requires executive agencies to provide for the timely disbursement of Federal funds.

If an agency's failure to comply with U.S. Department of the Treasury disbursement regulations results in increased cost to the general fund of the Treasury (for example, increased interest expenses resulting from increased borrowing needs), the Secretary of the Treasury may collect this amount from the offending agency for credit as miscellaneous receipts. If an agency could pay its noncompliance penalty to the Treasury simply by reducing awards under its assistance program, the penalty would effectively "cost" the agency nothing, the program beneficiaries would suffer, and little would be accomplished. The legislation addresses this by requiring that penalties be paid from administrative rather than program appropriations, to the maximum extent practicable.⁹

Interest on Grant Advances

The Comptroller General has consistently held that, except as otherwise provided by law, interest earned by a grantee on funds advanced by the United States under a grant pending their application to grant purposes, belongs to the United States rather than to the grantee. All such interest is required to be accounted for as funds of the United States, and must be deposited in the U.S. Treasury as miscellaneous receipts under Title 31, USC 3302(b).¹⁰

If a grantee is unable to document the actual amount of interest earned on the grant advances, the grantor agency shall use the "Treasury tax and loan account" rate prescribed by Title 31, USC 3717 for debts owed to the United States.¹¹ This rule applies whether the grantee is a public or private agency.

⁸ GAO Reports, Improving Medicaid Cash Management Will Reduce Federal Interest Costs, HRD-81-94 (May 29, 1981), and Better Cash Management Can Reduce the Cost of the National Direct Student Loan Program, FGMSD-80-5 (November 27, 1979), as cited in the GAO Office of the General Counsel, Principles of Federal Appropriations Law, Second Edition, volume II, chapter 10, section E2, dated December 1992.

⁹ Title 31, USC 3335(d), dated October 24, 1990.

¹⁰ 71 Comp. Gen. 387 (1992); 69 Comp. Gen. 660 (1990); 42 Comp. Gen. 289 (1962); 40 Comp. Gen. 81 (1960); B-203681, September 27, 1982; B-192459, July 1, 1980; B-149441, April 16, 1976; B-173240, August 30, 1973. As cited in the GAO Office of the General Counsel, Principles of Federal Appropriations Law, Second Edition, volume II, chapter 10, section E3a, dated December 1992.

¹¹ 69 Comp. Gen. 660 (1990), as cited in the GAO Office of the General Counsel, Principles of Federal Appropriations Law, Second Edition, volume II, chapter 10, section E3a, dated December 1992.

The rationale is that unless expressly provided otherwise, funds are paid out to a grantee to accomplish the grant purposes, not for the grantee to invest the money and earn interest at the expense of the Treasury. Thus, funds paid out to a grantee are not to be held, but are to be applied promptly to the grant purposes.¹²

When money is drawn from the U.S. Treasury before it is needed, or in excess of current needs, the Government loses the use of the money. The Comptroller General expressed this principle as follows: “When Federal receipts are insufficient to meet expenditures, the difference is obtained through borrowing; when receipts exceed expenditures, outstanding debt can be reduced. Thus, advancing funds to organizations outside the Government before they are needed either unnecessarily increases borrowings or decreases the opportunity to reduce the debt level and thereby increases interest costs to the Federal Government.”¹³

Controls Over Cash Management

Responsible OCFO officials stated that there were no procedures in place to monitor the agencies’ implementation of the cash management controls. OCFO’s role was limited to preparing Title 7, CFR 3019, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations, issued by the Office of the Secretary on August 24, 1995.

Three of four agencies reviewed (FAS, RHS, and RUS) did not incorporate the prescribed cash management regulations over cash management in their grant regulations or grant agreements. One agency (APHIS) had incorporated the regulations, but did not fully implement them. See exhibits E through H for details on each agency.

As a result, we determined that USDA grants to NPO’s resulted in:

- Profits to grant recipients (the interest earned on advanced Federal funds and not returned to the Treasury),
- Increased interest expense for taxpayers resulting from premature borrowing needs of the Treasury to advance the funds, and
- The potential of having agency administrative appropriations reduced by the increased borrowing needs of the Treasury.

¹² 1 Comp. Gen. 652 (1922), as cited in the GAO Office of the General Counsel, Principles of Federal Appropriations Law, Second Edition, volume II, chapter 10, section E3a, dated December 1992.

¹³ Comptroller General decision B-146285, dated October 2, 1973.

For the 26 grants reviewed, we found that between the dates of advances and the dates of disbursements by the grantees for authorized grant purposes, it cost the Department of the Treasury (i.e., taxpayers) \$407,442 in interest to borrow funds for the advances. This interest expense was partially offset by the return of \$10,334 in interest from three grants made by APHIS and RHS in which the advanced funds were placed in interest-bearing accounts and returned to the Treasury. The interest expense should have been further offset by the return of \$73,768 in interest from 14 grants made by FAS and APHIS for which earned interest was not returned. In addition, if the advance funds for all grants had been placed in interest-bearing accounts as required prior to their expenditure on authorized grant purposes, the interest expense could have been further offset by \$126,288 from 10 grants¹⁴ made by FAS, RHS, and RUS. Thus, the total interest expense to the Treasury could have been reduced to \$197,052 if all the interest was returned to the Treasury (\$407,442 less \$10,334 less \$73,768 less \$126,288).

The table below shows the effect by agency. See exhibits E, F, G, and H for details.

Agency	Treasury Interest Expense	Grant Interest Earned - Not Returned	Grant Interest Returned	Grant Interest Lost (Non-Interest-Bearing Account)
FAS (21 grants)	\$372,996.78	\$72,362.86	.00	\$119,482.49
RHS (3 grants)	20,876.05	.00	5,551.62	4,983.95
RUS (1 grant)	2,162.60	.00	.00	1,821.59
APHIS (1 grant)	11,406.71	1,404.90	4,782.67	.00
Totals (26 grants)	\$407,442.14	\$73,767.76	\$10,334.29	\$126,288.03

During the June 9, 2000, audit exit conference, OCFO officials stated that although the OCFO is responsible for financial management in USDA, it did not have the staff resources to ensure that the various agencies implemented the cash management controls of Title 7, CFR 3019. The officials also said the various agencies are responsible for managing their grants and agreements. The officials said the cash management controls outlined in Title 7, CFR 3019, apply to all USDA agencies, including FAS.

The grants and agreements we reviewed at the four agencies visited were Federal assistance grants/agreements and, therefore, should meet the cash management controls contained in Title 7, CFR 3019. Also, since the OCFO is responsible for financial management in USDA, a strategy is needed to provide oversight and/or assurance that all USDA agencies are in compliance with the Department's cash management controls outlined in Title 7, CFR 3019.

¹⁴ Adds to 27 grants because 1 grant had returned part of the interest earned but not all of it.

RECOMMENDATION NO. 1

Develop and implement a strategy to ensure that USDA agencies comply with the cash management controls of Title 7, CFR 3019, Uniform Administrative Requirements for Grants and Agreements with Higher Education, Hospital, and Other Nonprofit Organizations, issued by the Office of the Secretary on August 24, 1995. Test the strategy to ensure it is effective and will operate as designed.

OCFO Response

The Associate Chief Financial Officer's September 18, 2000, written response to the draft report, a copy of which is included as exhibit I, stated that the OCFO agrees with the OIG position that USDA agencies are to comply with the cash management requirements set forth in the regulations and statutes identified in this report. However, the Associate Chief stated that there is disagreement among the agencies and potentially mitigating circumstances that warrant further discussion.

The Associate Chief stated that both RHS and RUS agree that there is no explicit reference to the cash management regulations in either the agreements or agency regulations. RHS has agreed to include such references in the upcoming revisions to the regulations that are expected to be issued in the near future. It has been the practice within USDA to allow agencies some discretion as to the method used to notify recipients of Federal or Departmental requirements. Agencies may elect to put these requirements in either the agreement or agency program regulations. RHS brought to the attention of the OCFO that agency regulations spell out the requirement for placing grant funds in interest bearing accounts and returning the interest to the Federal Government. Therefore, OCFO has made the preliminary conclusion that the problem identified in RHS is one of recipient error rather than one needing overall agency system improvement. The OCFO continues to review the situation in RUS.

The Associate Chief also said the OCFO has not completed its review of the FAS situation. FAS officials feel strongly that, based on an oral opinion from OGC, 7 CFR 3019 does not apply to FAS. In addition, in a recent meeting FAS officials stated that (a) the amounts advanced met the cash management requirements in that the funds stayed in the domestic accounts for the shortest reasonable time, i.e., 90 days or less, before moving to foreign recipient accounts and (b) the foreign accounts typically do not pay interest. It will take some time to evaluate these points.

OIG Position

The OCFO needs to develop and implement a strategy to ensure that USDA agencies comply with the cash management controls in Title 7, CFR 3019, issued by the Office of the Secretary in 1995. We found that USDA agencies did not comply with the established cash management controls. In addition, the cash management procedures required in 7 CFR 3019 should be incorporated into the grant agreements with recipients in order for the procedures to be enforceable by the agencies. Our findings regarding FAS only addressed interest earned on advanced funds prior to disbursement to foreign accounts. We have not observed any regulations that indicate that 7 CFR 3019 would not apply to FAS regarding fund advances to domestic accounts. The audit report and OCFO's written response to the draft report clearly demonstrate that the application of the cash management requirements imposed by the Secretary of Agriculture in 7 CFR 3019 are not uniform among USDA agencies.

To reach agreement on the management decision for Recommendation No. 1, we need documentation showing the specific corrective action to be taken and the timeframe within which the corrective action will be completed.

RECOMMENDATION NO. 2

Update and strengthen DR 2120-1, Cash Management, to provide that controls be established to ensure compliance with the Department's cash management policies.

OCFO Response

The written response to the draft report, see exhibit I, did not address Recommendation No. 2.

OIG Position

To reach agreement on the management decision for Recommendation No. 2, we need documentation showing the specific corrective action to be taken and the timeframe within which the corrective action will be completed.

RECOMMENDATION NO. 3

Require the \$73,768 interest earned on advanced funds to be returned to the Department of the Treasury.

OCFO Response

The written response to the draft report did not address Recommendation No. 3.

OIG Position

To reach agreement on the management decision for Recommendation No. 3, we need documentation showing (1) the specific corrective action to be taken, (2) the timeframe within which the corrective action will be completed, (3) documentation that the cited recipients have been informed of the audit findings and the amounts owed to the Government, and (4) documentation that the amounts owed to the Government have been established as receivables on the applicable agency accounting records.

RECOMMENDATION NO. 4

Coordinate with the Department of the Treasury to recover the \$323,340 in increased Treasury borrowing costs (\$407,442 borrowing costs less \$73,768 in interest to be returned less \$10,334 in interest returned) from the applicable agencies' administrative appropriations.

OCFO Response

In his written response to the draft report, the Associate Chief stated that the recommendation was informally discussed with the Department of the Treasury (Treasury). Treasury officials agreed that they have the authority to assess a penalty against USDA for the increased borrowing costs; however, the officials said they have never found an instance of sufficient magnitude that would lead them to apply this penalty. Based on the information provided in the audit, Treasury officials do not believe this specific situation to be particularly egregious.

OIG Position

To reach agreement on the management decision for Recommendation No. 4, we need written documentation showing that the official position of the Department of the Treasury is not to recover the cited increased borrowing costs from the agencies' administrative appropriations.

RECOMMENDATION NO. 5

Require each USDA agency to review existing advances and:

- Recover all interest earned on advanced Federal funds.
- Ensure all advances are placed in interest-bearing accounts.
- Ensure disbursements are made by grantees immediately upon receipt of an advance.

OCFO Response

The written response to the draft report did not address Recommendation No. 5.

OIG Position

To reach agreement on the management decision for Recommendation No. 5, we need documentation showing (1) the specific corrective action to be taken, (2) the timeframe within which the corrective action will be completed, (3) the amount of interest earned to be collected, (4) documentation that the recipients have been informed of the audit findings and the amounts owed to the Government, and (5) documentation that the amounts owed to the Government have been established as receivables on the applicable agency accounting records.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

FINDING NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	Net interest expense incurred by Treasury because grantee did not immediately disburse advanced funds (\$407,442 interest expense less \$73,768 interest earned and not returned less \$10,334 interest earned and returned).	\$323,340	Questioned Cost, Recovery Recommended.
1	Interest earned on advanced funds and not returned to Treasury.	73,768	Questioned Costs, Recovery Recommended.
Total		\$397,108	

EXHIBIT B – AUDIT SITES VISITED

Washington, DC, National Offices for:

Office of the Chief Financial Officer
Animal Plant and Health Inspection Service
Foreign Agricultural Service
Rural Housing Service
Rural Utilities Service

Grant/Cooperative Agreement Recipients Reviewed:

Recipient	USDA Agency	Number of Grants Reviewed
American Soybean Association St. Louis, MO	FAS	3
California Walnut Commission Sacramento, CA	FAS	2
Cotton Council International Washington, DC	FAS	3
Grains Council Washington, DC	FAS	1
Livestock Genetics St. Louis, MO	FAS	2
Meat Export Federation Denver, CO	FAS	3
Military Highway Water Supply Corporation San Benito, TX	RUS	1
National Association of State Departments of Agriculture Washington, DC	FAS	1
Rural California Housing Corporation West Sacramento, CA	RHS	1
Self-Help Enterprises Visalia, CA	RHS	2
Southeastern Boll Weevil Eradication Foundation Montgomery, AL	APHIS	1
USA Rice Federation Houston, TX	FAS	3
Western United States Trade Association Vancouver, WA	FAS	2
Wheat Associates Washington, DC	FAS	1

EXHIBIT C – ABBREVIATIONS

APHIS	-	Animal and Plant Health Inspection Service
ARS	-	Agricultural Research Service
CFO	-	Chief Financial Officer
CFR	-	Code of Federal Regulations
CSREES	-	Cooperative State Research Education and Extension Service
DR	-	Departmental Regulation
FAS	-	Foreign Agricultural Service
FASG	-	Foreign Agricultural Service Guidelines
FMD	-	Foreign Market Development
GAO	-	General Accounting Office
MAP	-	Market Access Program
NPO	-	Nonprofit Organization
OCFO	-	Office of the Chief Financial Officer
OGC	-	Office of the General Counsel
OMB	-	Office of Management and Budget
RBS	-	Rural Business-Cooperative Service
RHS	-	Rural Housing Service
RUS	-	Rural Utilities Service
USC	-	United States Code
USDA	-	United States Department of Agriculture

EXHIBIT D – GLOSSARY OF TERMS

Advance – A payment made by Treasury check or other appropriate payment mechanism to a recipient upon its request either before outlays are made by the recipient or through the use of predetermined payment schedules.

Award - Financial assistance that provides support or stimulation to accomplish a public purpose. Awards include grants and other agreements in the form of money or property in lieu of money, by the Federal Government to an eligible recipient.

Cooperative Agreement – Legal instrument reflecting a relationship between the United States Government and a State, a local government, or other recipient when (1) the principal purpose of the relationship is to transfer a thing of value to the State, local government, or other recipient to carry out a public purpose of support or stimulation authorized by a law of the United States instead of acquiring (by purchase, lease, or barter) property or services for the direct benefit or use of the United States Government; and (2) substantial involvement is expected between the executive agency and the State, local government, or other recipient when carrying out the activity contemplated in the agreement.

Expenditure - Charges made to the grant.

Federal Awarding Agency - The USDA or any subagency of the USDA that provides an award to the recipient.

Grant – Legal instrument reflecting a relationship between the United States Government and a State, a local government, or other recipient when (1) the principal purpose of the relationship is to transfer a thing of value to the State, local government, or other recipient to carry out a public purpose of support or stimulation authorized by a law of the United States instead of acquiring (by purchase, lease, or barter) property or services for the direct benefit or use of the United States Government; and (2) substantial involvement is not expected between the executive agency and the State, local government, or other recipient when carrying out the activity contemplated in the agreement.

Grantee – See recipient.

Interest Earned on Advanced Funds – Interest is earned when grantees do not immediately disburse funds advanced by the U.S. Treasury and funds are placed into accounts that earn interest. Earnings are determined by agreement between the grantee and the financial institution.

EXHIBIT D – GLOSSARY OF TERMS

Interest Expense to Treasury – Expense incurred when grantees do not immediately disburse funds advanced by the U.S. Department of the Treasury. The expense is calculated from the date of deposit by the grantee into their accounts until the funds are disbursed by the grantee on authorized grant purposes.

Interest Lost on Advanced Funds – Interest is lost when grantees do not immediately disburse funds advanced by the U.S. Department of the Treasury and funds are placed into accounts that do not earn interest. Interest lost is calculated from the date of deposit by the grantee into their accounts until the funds are disbursed by the grantee on authorized grant purposes.

Recipient – An organization receiving financial assistance directly from Federal awarding agencies to carry out a project or program. The term includes public and private institutions of higher education, public and private hospitals, and other quasi-public and private nonprofit organizations such as, but not limited to, community action agencies, research institutes, educational associations, and health centers. The term may include commercial organizations, foreign or international organizations (such as agencies of the United Nations) which are recipients, subrecipients, or contractors or subcontractors of recipients or subrecipients at the discretion of the Federal awarding agency. The term does not include government-owned, contractor-operated facilities or research centers providing continued support for mission-oriented, large-scale programs that are government owned or controlled, or are designated as federally funded research and development centers.

EXHIBIT E – FOREIGN AGRICULTURAL SERVICE

FAS did not incorporate the cash management controls required by Title 7, CFR 3019,¹⁵ Departmental Regulation 2120-001,¹⁶ and Title 31, USC 3335¹⁷ into their grants to NPO's. As a result, the Department of the Treasury incurred \$372,996.78 in interest expense to advance funds on the 21 grants reviewed; 13 of the 21 grants earned \$72,362.86 in interest on the advanced funds without returning it to the Treasury; and 8 of the 21 grants did not place the advance funds in interest-bearing accounts and, therefore, missing the opportunity to earn \$119,482.49 in interest that was required to be returned to the Treasury.

FAS officials, with OGC concurrence, determined that Title 7, CFR 3019, did not apply to FAS grants. Although we question that decision, such a decision would not relieve FAS from cash management responsibilities. Notwithstanding Title 7, CFR 3019, DR 2120-001 specified that USDA agencies would comply with the applicable provisions of the Treasury Financial Manual (TFM). Also, Title 31, USC 3335 provides the statutory authority to recover the cost to the general fund of the Department of the Treasury if USDA agencies do not comply with the timely disbursement regulations found in the TFM. Below is a discussion of these regulatory, policy, and statutory issues.

Title 7, CFR Part 3019

In response to our queries, FAS officials stated that they had consulted with OGC and determined that Title 7, CFR 3019 regarding grant administration did not apply to Foreign Market Development (FMD) and Market Access Program (MAP) grants.

Our review of OGC's written advice provided to FAS revealed that OGC did not specifically state that Title 7, CFR 3019 did not apply to FMD and MAP grants. OGC's advice dealt with the applicability of Office of Management and Budget (OMB) Circulars A-122¹⁸ and A-133¹⁹ to FAS grants. The basis for OGC's advice was that the requirement to apply the provisions of OMB Circulars A-122 and A-133 was contained in OMB Circular A-110,²⁰ and that a statute²¹ exempted FAS grants from the requirements of OMB Circular A-110. OGC reasoned that since Title 7, CFR 3019 was USDA's codification of OMB Circular A-110, then Title 7, CFR 3019 did not apply to FAS.

¹⁵ Title 31, CFR 3019, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations, dated August 21, 1995.

¹⁶ Departmental Regulation 2120-001, Cash Management, dated January 23, 1984.

¹⁷ Title 31, USC 3335, Timely disbursement of Federal funds as of January 5, 1999.

¹⁸ OMB Circular A-122, Cost Principles for Nonprofit Organizations, dated May 8, 1997.

¹⁹ OMB Circular A-133, Audits of State, Local Governments, and Nonprofit Organizations, dated June 24, 1997.

²⁰ OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations, dated August 29, 1997.

²¹ Title 7, USC 1736u(b), Exemptions of Requirements of OMB Circular, as of January 5, 1999.

EXHIBIT E – FOREIGN AGRICULTURAL SERVICE

We find this problematic since the Department used Title 7, CFR 3019 to apply not only statutory provisions for single audit, but also for other statutory requirements including:

- Financial and Program Management (includes cash management controls)
- Property Standards
- Procurement Standards
- Termination and Enforcement
- Equal Employment Opportunity
- Copeland “Anti-Kickback” Act
- Davis-Bacon Act
- Contract Work Hours and Safety Standards Act
- Rights to Inventions Made Under a Contract or Agreement
- Clear Air Act
- Byrd Anti-Lobbying Amendment
- Debarment and Suspension

A statute (such as the Single Audit Act) does not become inapplicable to FAS because it is referenced in OMB Circular A-110. OMB Circulars represent Government policy; however, regulations published in the CFR, such as Part 3019, have the “force and effect of law.”

OCFO officials stated that the Secretary applied Title 7, CFR 3019 to all USDA grants (including FAS) using the statutory authority provided in Title 5, USC 301.²² OCFO officials also said the decision on whether it applies rests with the OCFO (as delegated by the Secretary) and not with the individual agencies of USDA.

Departmental Regulation 2120-001

This regulation states that USDA agencies are to comply with the requirements and procedures set forth in TFM, Volume I, Part 6, Chapter 8000, Cash Management. Section 8010 refers to TFM Volume I, Part 6, Chapter 2000 for cash advance procedures. Section 2025 requires that advances to a recipient organization be limited to the minimum amounts necessary for immediate disbursement needs and that advances will be timed to be in accord only with the actual immediate cash requirements of the recipient organization in carrying out the purpose of an approved program or project. The timing and amount of cash advances are to be as close as is administratively feasible to the actual disbursements by the recipient organization.

EXHIBIT E – FOREIGN AGRICULTURAL SERVICE

²² Title 5, USC 301, Departmental Regulations, dated September 6, 1966.

Title 31, USC 3335

Section 3335(a) of this law requires USDA, under such regulations as the Secretary of the Treasury shall prescribe (TFM Volume I, Part 6, Section 2025), to provide for the timely disbursement of Federal funds. Further, Section 3335(b) states that if USDA does not comply with Section 3335(a), the Secretary of the Treasury is allowed to charge an amount determined to be the cost to the general fund of the Treasury caused by such noncompliance. Section 3335(d) states that any charge assessed, to the maximum extent practicable, is to be paid out of appropriations available for USDA operations and shall not be paid from amounts available for funding programs of USDA.

Therefore, although FAS may be exempt from the cash management controls of Title 7, CFR 3019, it is not exempt from the cash management controls enumerated in Departmental Regulation 2120-001 and Title 31, USC 3335.

On March 20, 2000, FAS issued a notice to all MAP and FMD grantees stating it was FAS policy that:

- MAP grantees may request up to 40 percent of the approved general budget and FMD grantees may request a special advance payment for an impending large cost item.
- Advances should be limited to the minimum amounts needed and should be requested as close as is administratively feasible to the actual time of disbursement.
- Advances be deposited and maintained in insured, interest-bearing accounts.
- Grantees must expend all advances and return all interest earned on advances within 90 calendar days of receipt.

On April 27, 2000, FAS issued a notice to FMD grantees with permanent operating advances stating it was FAS policy that:

- Operating advances should be limited to the minimum amounts needed for normal operating requirements.
- Advances be deposited and maintained in insured, interest-bearing accounts.
- Interest earned on advances should be remitted to FAS.

These notices issued by FAS can provide a short-term solution to some of the cash management concerns. However, they contain potential problem areas of their own, including permissive language such as “should be” versus “shall be.” Unless the cash management procedures required in Title 7, CFR 3019 are incorporated into the grant agreements between FAS and its grantees, they remain subject to litigation as to their enforceability.

EXHIBIT E – FOREIGN AGRICULTURAL SERVICE

The most cost beneficial solution is provided in Title 7, CFR 3019. This regulation's title begins with "Uniform Administrative Requirements***." As the name implies, the administrative requirements for grantees have been required by the Secretary to be uniform across USDA agencies. Agencies, such as FAS, who develop their own administrative grant requirements are unnecessarily expending valuable resources. A reference to Title 7, CFR 3019 in the grant agreements between FAS and the grantees would eliminate this duplication of effort.

The results of our review of FMD and MAP grants are summarized below.

FMD Grants

FMD program regulations²³ during the period covered by our audit were program specific and did not address cash management controls or advances to grantees, although internal FAS Guidelines²⁴ (FASG) required that any interest earned on an advance be returned to the Treasurer of the United States. However, FAS officials stated that FASG represent only internal FAS policy.

We found that FAS allows FMD grantees to maintain permanent revolving advances, i.e., they are periodically replenished to maintain the advanced amount. As of July 20, 1999, nine grantees had advances totaling \$3,993,072.63, as follows:

Grantee	Current Advance	Date of Initial Advance
U.S. Wheat Associates*	\$1,500,000.00	August 1983
American Soybean Association*	731,000.00	August 1983
U.S. Feed Grains Council*	613,754.63	December 1982
U.S. Meat Export Federation*	310,000.00	August 1983
U.S.A. Rice Federation*	223,000.00	January 1983
U.S.A. Poultry and Egg Export Council	213,500.00	September 1983
Cotton Council International*	172,000.00	August 1983
National Renderers Association	161,318.00	September 1982
American Forest and Paper Association	68,500.00	October 1982
Total	\$3,993,072.63	

*Reviewed during audit.

²³ Title 7, CFR Part 1550, Programs to Help Develop Foreign Markets for Agricultural Commodities, as of January 1, 1999.

²⁴ Final 11 FASG 802.5b, Banking, dated October 1985.

EXHIBIT E – FOREIGN AGRICULTURAL SERVICE

Our review covered six of the nine grants (see table below) and the interest expense to the Treasury to maintain the advances for the period covered by our review was \$243,504.91. One grant had earned at least \$8,224.24 on the advance without returning the funds to the Treasury. The other five grants did not have the funds in interest-bearing accounts thereby missing the opportunity to offset the Treasury's interest expense by \$107,292.95.

Grantee	Treasury Interest Expense	Grant Interest Earned - Not Returned	Grant Interest Returned	Grant Interest Lost (Non-Interest-Bearing Account)
Wheat Associates	\$43,239.38	\$0.00	\$0.00	\$31,156.99
Grains Council	13,253.63	0.00	0.00	10,253.98
Cotton Council International	56,070.99	8,224.24	0.00	0.00
American Soybean Association	50,645.85	0.00	0.00	18,041.49
Meat Export Federation	36,510.78	0.00	0.00	29,552.93
USA Rice Federation	43,784.28	0.00	0.00	18,287.56
Totals	\$243,504.91	\$8,224.24	\$0.00	\$107,292.95

MAP Grants

MAP program regulations²⁵ allow advances to grantees for generic promotion activities for 40 percent of the grantees' annual grant amount. Grantees are required to expend the advance within 90 days and are also required to either return a pro rata share²⁶ of the interest earned on the advance or offset their next reimbursement claim for the amount. These provisions of the MAP program regulations are not consistent with the required cash management controls (see Finding No. 1). During our review, we identified 15 grants (see table below) whereby the interest expense to the Treasury to maintain the advances was \$129,491.87. Twelve grants had earned at least \$64,138.62 on advances without returning the interest to the Treasury. Three grants did not have the funds in interest-bearing accounts, thereby missing the opportunity to offset the Treasury's interest expense by \$12,189.54.

²⁵ Title 7, CFR Part 1485, ~~Cooperative Agreements for the Development of Foreign Markets for Agricultural Commodities~~, as of January 1, 1999.

²⁶ Title 7 CFR Part 1485.18(c), ~~Refunds Due CCC~~ as of January 1, 1999. FAS interprets this to mean that a recipient must return only the interest earned on the advance funds held longer than 90 days.

EXHIBIT E – FOREIGN AGRICULTURAL SERVICE

Grantee	Treasury Interest Expense	Grant Interest Earned - Not Returned	Grant Interest Returned	Grant Interest Lost (Non-Interest- Bearing Account)
California Walnut Commission	\$9,006.73	\$5,663.49	\$0.00	\$0.00
California Walnut Commission	9,129.09	6,002.58	0.00	0.00
Western U.S. Trade Association	2,051.38	1,567.32	0.00	0.00
Western U.S. Trade Association	1,617.58	1,228.47	0.00	0.00
Cotton Council International	23,005.07	5,809.54	0.00	0.00
Cotton Council International	13,750.97	5,412.42	0.00	0.00
American Soybean Association	8,491.00	0.00	0.00	6,524.25
American Soybean Association	656.17	0.00	0.00	606.38
Livestock Genetics	1,888.99	703.81	0.00	0.00
Livestock Genetics	1,971.25	580.94	0.00	0.00
National Association of State Departments of Agriculture	5,451.03	0.00	0.00	5058.91
Meat Export Federation	26,225.33	27,788.45	0.00	0.00
Meat Export Federation	19,744.24	4,429.97	0.00	0.00
USA Rice Federation	4,336.39	3,327.00	0.00	0.00
USA Rice Federation	2,166.65	1,624.63	0.00	0.00
Totals	\$129,491.87	\$64,138.62	\$0.00	\$12,189.54

EXHIBIT F – RURAL HOUSING SERVICE

RHS did not incorporate the cash management controls required by statutes, Comptroller General decisions, and Departmental grant regulations into their grants to NPO's. RHS officials said they were not aware of the Departmental grant regulations. As a result, for the three grants reviewed, the Treasury incurred \$15,324.43 (\$20,876.05 Treasury interest expense less \$5,551.62 grant interest returned) in net interest expense to advance funds and one grantee did not place the advance funds in an interest-bearing account missing the opportunity to earn \$4,983.95 in interest that was required to be returned to the Treasury.

Grantee	Treasury Interest Expense	Grant Interest Earned - Not Returned	Grant Interest Returned	Grant Interest Lost (Non-Interest- Bearing Account)
Rural California Housing Corporation	\$5,929.34	\$0.00	\$0.00	\$4,983.95
Self-Help Enterprises	9,837.07	0.00	3,966.25	0.00
Self-Help Enterprises	5,109.64	0.00	1,585.37	0.00
Totals	\$20,876.05	\$0.00	\$5,551.62	\$4,983.95

EXHIBIT G – RURAL UTILITIES SERVICE

RUS did not incorporate the cash management controls required by statutes, Comptroller General decisions, and Departmental grant regulations into their grants to NPO's. RUS officials said they were not aware of the Departmental grant regulations. As a result, the Treasury incurred \$2,162.60 interest expense to advance funds and the grantee did not place the advance funds in an interest-bearing account missing the opportunity to earn \$1,821.59 in interest that was required to be returned to the Treasury.

Grantee	Treasury Interest Expense	Grant Interest Earned - Not Returned	Grant Interest Returned	Grant Interest Lost (Non-Interest- Bearing Account)
Military Highway Water Supply Corporation	2,162.60	0.00	0.00	1,821.59
Totals	\$2,162.60	\$0.00	\$0.00	\$1,821.59

EXHIBIT H – ANIMAL AND PLANT HEALTH INSPECTION SERVICE

APHIS had not fully implemented the cash management controls required by statutes, Comptroller General decisions, and Departmental grant regulations. The \$607,000 of the \$2,428,000 was provided as a 90-day advance at the beginning of the grant period. APHIS officials said they were not aware of the requirement to advance only the immediate needs to a grantee, even though required by the terms of the grant. As a result, the Treasury incurred \$6,624.04 (\$11,406.71 Treasury interest expense less \$4,782.67 grant interest returned) in net interest expense to advance funds and grant interest of \$1,404.90 had not been returned to the Treasury.

Grantee	Treasury Interest Expense	Grant Interest Earned - Not Returned	Grant Interest Returned	Grant Interest Lost (Non-Interest- Bearing Account)
Southeastern Boll Weevil Eradication Foundation	\$11,406.71	\$1,404.90	\$4,782.67	\$0.00
Totals	\$11,406.71	\$1,404.90	\$4,782.67	\$0.00

EXHIBIT I – OCFO WRITTEN RESPONSE TO THE DRAFT REPORT



United States
Department of
Agriculture

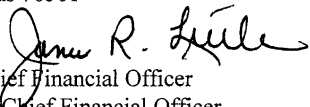
Office of the Chief
Financial Officer

1400 Independence
Avenue, SW

Washington, DC
20250

SEP 18 2000

TO: John O. Leavy
Regional Inspector General
USDA Office of Inspector General
101 South Main Street, Room 324
Temple, Texas 76501

FROM: Jim Little 
Associate Chief Financial Officer
Office of the Chief Financial Officer

SUBJECT: Audit 50801-11-Te "Advances to Nonprofit Organizations for
Grants/Cooperative Agreements"

This is in response to the official draft report for the subject audit.

The Office of the Chief Financial Officer (OCFO) agrees with the Office of the Inspector General (OIG) position that USDA agencies are to comply with the cash management requirements as set out in the regulations and statutes identified in the report. However, the OCFO, based on discussions with the agencies referenced in this report, found that there is disagreement with some of the basic facts as presented in the report. In addition there are potentially relevant mitigating circumstances that warrant further discussion.

The report states that two Rural Development (RD) agencies, Rural Housing Service (RHS) and Rural Utilities Service (RUS), have not incorporated the prescribed cash management regulations into their grant agreements or regulations. Both agencies agree that there is no explicit reference to these rules in either the agreements or agency regulations. RHS has agreed to include such references in the upcoming revisions of the relevant regulations which are expected to be issued in the near future. We would also note that it is, and has been, the practice within USDA to allow agencies some discretion as to the method used to notify recipients of Federal or Departmental requirements. Among other things, agencies may elect to put these requirements in either the agreement or agency program regulations. They do not have to list them in both. Also, the requirements may be spelled out with or without explicit regulatory or statutory citation although citation is encouraged. In this instance RHS brought to our attention copies of agency regulations which spelled out the requirement for placing grant funds in interest bearing accounts and returning the interest to the Federal government. This agency also uses the SF-270 "Request for Advance" form and related system which requires that recipients provide data supporting the

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EXHIBIT I – OCFO WRITTEN RESPONSE TO THE DRAFT REPORT

John Leavy
Page 2

timing and amount of any advance request. We are continuing our review of the situation in RUS but we have made the preliminary conclusion that the problem identified in RHS is one of recipient error rather than one needing overall Agency system improvement.

We have not completed our review of the FAS situation. As discussed in the report, FAS feels strongly that, based on an oral opinion from OGC, 7 CFR 3019 does not apply to their organization. In addition, at the recent meeting they stated that: a) the amounts advanced met the cash management requirements in that the funds stayed in the domestic accounts for the shortest reasonable time, i.e. 90 days or less, before moving to foreign recipient accounts; and b) the foreign accounts typically do not pay interest. It will take some time to evaluate these points.

With regard to recommendation # 4, we have informally discussed this proposal with the Department of the Treasury (Treasury). Treasury agrees that they have the authority to assess a penalty against USDA for the increased borrowing costs. However, Treasury also states that they have never found an instance of sufficient magnitude that would lead them to apply this penalty. Based on the information provided in the audit, Treasury does not believe this specific situation to be particularly egregious. We recommend that this recommendation be removed from the final report.

We appreciate the opportunity to comment. Should you have any questions regarding this response, please contact Gerald Miske at (202) 720-1553.